

Message Text

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SUBJ: GOE/GULF TAKE A MAJOR STEP FORWARD IN NEGOTIATIONS

REF: 77 QUITO 7817

SUMMARY: THE PROCESS OF SELECTING AN INDEPENDENT EUROPEAN
AUDIT FIRM TO DETERMINE THE FINAL VALUATION OF GULF'S ASSETS
TAKEN OVER BY THE GOE AT THE END OF 1976 IS FINALLY ON TRACK.
HOPEFULLY THE AUDIT WILL BEGIN IN JUNE OF THIS YEAR, WITH
RESULTS TO BE RELEASED IN EARLY 1979.
END SUMMARY

1. GULF AND CEPE, THE STATE PETROLEUM CORPORATION, HAVE JUST
ACHIEVED SIGNIFICANT PROGRESS IN THE ONGOING PROCESS TO
DETERMINE THE FINAL EVALUATION OF GULF'S ASSETS IN ECUADOR
WHICH WERE TAKEN OVER BY CEPE EFFECTIVE THE END OF 1976 PER
THE MAY 27, 1977 GULF/GOE ACCORD.

2. THE MAY 27 ACCORD, INTER ALIA, CALLED FOR AN INITIAL DOWN
PAYMENT OF \$82,128,000 BY CEPE TO GULF, WITH EACH PARTY TO
POST LETTERS OF CREDIT EQUIVALENT TO \$35,372,000 WHICH WOULD
BE DRAWN UPON IN WHOLE OR IN PART DEPENDING ON THE FINAL
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DETERMINATION BY AN INDEPENDENT EUROPEAN AUDIT FIRM
OF THE VALUATION OF GULF'S ASSETS AT THE END OF 1976.

3. THE STRUCTURING OF THE MECHANICS TO SELECT THE AUDIT FIRM
DRAGGED ON FOR ALMOST SEVEN MONTHS PAST THE DEADLINE, DUE TO
DISAGREEMENTS BETWEEN GULF AND CEPE ON THE WORDING OF THE
MODEL CONTRACT FOR THE AUDIT FIRM, THE SEPARATE DOCUMENT

DETAILING INSTRUCTIONS TO THE AUDITOR, AND THE DEBT-LIQUIDATION AGREEMENT THAT WOULD AUTOMATICALLY IMPLEMENT THE FINDINGS OF THE AUDITOR. GULF AND CEPE FINALLY SIGNED THESE THREE DOCUMENTS ON FEBRUARY 17.

4. THE VARIOUS AUDIT-RELATED DOCUMENTS WERE TAKEN ON FEBRUARY 23 BY GULF AND CEPE REPRESENTATIVES TO EUROPE FOR PRESENTATION TO THE THREE PRE-QUALIFIED FIRMS OF THOMSON-MCLINTOCK (UNITED KINGDOM), DELOITTE (UNITED KINGDOM), AND TREUARBEIT (WEST GERMANY). GULF WOULD BE HAPPY WITH ANY OF THE FIRMS, AND THERE IS THUS NO PROSPECT OF ANY DRAWN-OUT DISAGREEMENT WITH CEPE ON SELECTING A FIRM. THE GULF/CEPE REPRESENTATIVES WILL ANSWER ON THE SPOT QUESTIONS FROM THE AUDIT FIRMS. IT IS EXPECTED THAT THE PRESENTATION TO THE THREE FIRMS WILL TAKE ABOUT TWO WEEKS, AND BIDS WILL BE DUE FOR DELIVERY IN ECUADOR BY APRIL 6. HOPEFULLY A CONTRACT WILL BE SIGNED BY THE END OF APRIL, WITH WORK ON THE AUDIT BEGINNING IN EARLY JUNE.

5. THE MAJOR POINTS OF THE DEBT LIQUIDATION AGREEMENT ARE AS FOLLOWS:

A) GULF AGREES TO PAY \$307,980 AS ITS 180-DAY INTEREST RATE SUBSIDY OBLIGATION (PER MAY 27 ACCORD) ON THE SHORT-TERM LOAN TAKEN OUT BY CEPE IN MARCH 1977 FOR GULF'S \$82,128,000 DOWN PAYMENT. (A ONE-YEAR \$100,000,000 LOEB RHOADES LOAN WAS USED IN PART FOR CEPE'S PAYMENT.) UNDER THE MAY 27 ACCORD, CEPE LIMITED OFFICIAL USE

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AND GULF WERE TO PROPOSE SEPARATELY A NEW SEVEN-YEAR LOAN TO REFINANCE THE INITIAL SHORT-TERM LOAN.

B) GULF WILL PAY \$384,975 FOR THE 1/8 PERCENT INTEREST RATE SAVING ON THE LONG-TERM CHASE LOAN PROPOSAL WHICH CEPE PROCURED IN RESPONSE TO GULF'S CITIBANK LOAN PROPOSAL. IT IS NOT KNOWN CURRENTLY WHETHER CEPE WILL UTILIZE THE CHASE LOAN OR RECEIVE A NEW LONG-TERM LOAN FROM LOEB RHOADES. IN ANY CASE, GULF'S PAYMENT WILL NOT CHANGE. GULF CONSIDERS THIS PAYMENT A GIFT FROM THEM NOT REQUIRED BY THE MAY 27 ACCORD.

C) GULF WILL PAY \$205,320 FOR A 1/4 PERCENT FRONT-END ADMINISTRATIVE FEE, AGAIN A NON-REQUIREMENT.

D) GULF, IN PROBABLY THE MAJOR CONCESSION NEEDED TO GET THE AUDIT FIRM SELECTION PROCESS GOING, WILL PAY AT THE TIME OF THE IMPLEMENTATION OF THE AUDIT FINDINGS THE DISCOUNTED PRESENT VALUE OF THE LONG-TERM LOAN INTEREST PAYMENT SUBSIDY OBLIGATION REQUIRED BY THE MAY 27 ACCORD. ACCORDING TO GULF, THE AUDIT FIRM COULD NOT POSSIBLY FINISH ITS WORK BEFORE EARLY 1979. THUS GULF PROPOSES TO PAY THE ACTUAL LONG-TERM LOAN INTEREST SUBSIDY COSTS FOR A ONE-YEAR PERIOD AFTER MARCH 1978, AS WELL AS THE

DISCOUNTED PRESENT VALUE FOR THE REMAINING SIX YEARS OF THE
LOAN, FOR THE TOTAL OF \$6,699,429.

E) COMBINING ALL OF GULF'S PAYMENTS MENTIONED ABOVE, GULF
WILL OWN \$7,597,767 TO CEPE AT THE TIME THE DEBT-LIQUIDATION
AGREEMENT ACTIVATES ONE OF THE LETTERS OF CREDIT TAKEN OUT BY
CEPE AND GULF. GULF WILL DEDUCT \$7,597,767 FROM THE AMOUNT
OF CEPE'S OBLIGATION AS DETERMINED BY THE AUDITOR (ASSUMING
THE AUDITOR FINDS IN GULF'S FAVOR). AT THE SAME TIME, GULF
WILL ADD ON CEPE'S \$5,155,283 LOCAL-SALES DEBT TO GULF (WITH
NO PENALTY FOR DELAYED PAYMENT) WHICH WAS DUE JULY 26, 1977.
THE DIFFERENCE BETWEEN CEPE'S LOCAL DEBT AND GULF'S INTEREST
OBLIGATIONS IS \$2,442,484, MEANING THAT CEPE'S TOTAL OBLIGATION
TO GULF WILL BE REDUCED BY \$2,442,484.
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F) ONCE THE LETTER OF CREDIT IS ACTIVATED, CEPE AND GULF WILL
EXCHANGE QUIT-CLAIMS TERMINATING LEGALLY ALL POSSIBLE
POINTS OF CONFLICT BETWEEN THE TWO PARTIES.

6. COMMENT: WITH THESE NEW POINTS OF UNDERSTANDING, FROM
HERE ON THE WHOLE PROCESS SHOULD BECOME RATHER AUTOMATIC AND
FREE OF FURTHER GIBBLING, AT LEAST UNTIL THE AUDIT FIRM
ANNOUNCES ITS FINDINGS.
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